CLAIMS

1. A method by which an entity manages an exposure to an economic risk associated with a commodity, comprising the steps of:

forming a model portfolio of said exposure, said model representing cash flows;

forming a hedging portfolio for said exposure, said hedging portfolio representing cash flows;

periodically combining said cash flows of said model portfolio and said hedging portfolio; and

providing a payout based on said combined cash flows.

2. The method of claim 1, wherein the step of forming a model portfolio includes the step of:

forming a model portfolio of said exposure with actual contracts.

3. The method of claim 1, wherein the step of forming a model portfolio includes the step of:

forming a model portfolio of said exposure with proxy contracts.

4. The method of claim 1, wherein the step of forming a model portfolio includes the step of:

forming a model portfolio of said exposure with actual contracts and proxy contracts.

5. The method of claim 1, wherein the step of forming a hedging portfolio includes the steps of:

receiving at least one hedging transaction executed by said entity;

modeling said at least one hedging transaction.

6. The method of claim 1, wherein said step of forming a model portfolio comprises the step of:

having an institution record said exposure; and

wherein the step of forming a hedging portfolio includes the step of:

having said institution execute at least one hedging transaction.

7. The method of claim 6, wherein said step of recording includes the step of:

executing at least one transaction between said entity and said institution.

8. The method of claim 7, wherein said at least one transaction includes an actual transaction.

9. The method of claim 7, wherein said at least one transaction includes a proxy transaction.

10. The method of claim 6, further comprising the step of:

exchanging said combined cash flows between said entity and said institution.

11. The method of claim 10, wherein the step of exchanging said combined cash flows includes the steps of:

paying to said entity positive combined cash flows; and

receiving from said entity negative combined cash flows.

12. The method of claim 10, wherein the step of exchanging said combined cash flows includes the step of:

having said institution retain any loss of cash flows resulting from a default.

13. The method of claim 10, wherein the step of exchanging said combined cash flows includes the step of:

having said institution retain at least a portion of any pooling profits.

14. The method of claim 1, further comprising the step of:

receiving a benchmark from said entity, said benchmark representing cash flows; and

wherein the step of providing a payout based on said combined cash flows includes the step of:

providing a payout based on a difference between said combined cash flows and said benchmark cash flows.

15. The method of claim 14, wherein said step of providing a payout based on a difference between said combined cash flows and said benchmark cash flows includes the steps of:

providing a payment to said entity if said combined cash flows is less than said benchmark cash flows; and

receiving a payment from said entity if said combined cash flows is greater than said benchmark cash flows.

16. The method of claim 15, wherein said payment is a percentage of said difference between said combined cash flows and said benchmark cash flows.

17. The method of claim 15, wherein said payment is provided if said difference between said combined cash flows and said benchmark cash flows is within a band.

18. The method of claim 15, wherein said payment is provided if said difference between said combined cash flows and said benchmark cash flows is outside a band.

19. The method of claim 1, wherein said model portfolio is periodically updated.

20. The method of claim 1, wherein said hedge is periodically updated.

21. The method of claim 1, wherein said cash flows of said model portfolio and said hedging portfolio are combined daily.

22. The method of claim 1, wherein said commodity is electricity.

23. The method of claim 1, wherein said commodity is selected from the group including natural gas, copper, zinc, interest rates, oil products, bandwidth and foreign exchange.

24. A system by which an entity manages a portfolio of exposures to an economic risk associated with a commodity, comprising:

a portfolio modeling engine, said portfolio modeling engine receiving said portfolio of exposures from said entity and forming a model portfolio representing cash flows;

a hedging modeling engine for receiving at least one hedging transaction, said hedging modeling engine forming a hedging portfolio representing cash flows based on said at least one hedging transaction and said model portfolio;

a tracking portfolio generator, said tracking portfolio generator receiving said model portfolio and said hedging portfolio and combining said cash flows of said model portfolio and said hedging portfolio; and

a payout manager, said payout manager providing a payout based on said combined cash flows.

25. The system of claim 24, wherein said model is formed with actual contracts.

26. The system of claim 24, wherein said model is formed with proxy contracts.

27. The system of claim 24, wherein said model is formed with actual contracts and proxy contracts.

28. The system of claim 24, wherein said hedging modeling engine forms said hedging portfolio by receiving at least one hedging transaction executed by said entity and modeling said at least one hedging transaction.

29. The system of claim 24, wherein a benchmark is received from said entity, said benchmark representing cash flows and wherein said payout is based on a difference between said combined cash flows and said benchmark cash flows.

30. The system of claim 29, wherein said payout is a payment to said entity if said combined cash flows is less than said benchmark cash flows and said payout is a payment from said entity if said combined cash flows is greater than said benchmark cash flows.

31. The system of claim 30, wherein said payment is a percentage of said difference between said combined cash flows and said benchmark cash flows.

32. The system of claim 30, wherein said payment is provided if said difference between said combined cash flows and said benchmark cash flows is within a band.

33. The system of claim 30, wherein said payment is provided if said difference between said combined cash flows and said benchmark cash flows is outside a band.

34. The system of claim 24, wherein said model portfolio is periodically updated.

35. The system of claim 24, wherein said hedging portfolio is periodically updated.

36. The system of claim 24, wherein said cash flows of said model and said hedge are combined daily.

37. The system of claim 24, wherein said commodity is electricity.

38. The system of claim 24, wherein said commodity is selected from the group including natural gas, copper, zinc, interest rates, oil products, bandwidth and foreign exchange.

39. A system by which an entity manages a portfolio of exposures to an economic risk associated with a commodity, comprising:

a transaction manager, said transaction manager executing at least one transaction between an institution and said entity, said at least one transaction forming a model portfolio representing cash flows;

a hedging module for executing at least one hedging transaction, said at least one hedging transaction forming a hedging portfolio representing cash flows;

a tracking portfolio generator, said tracking portfolio generator receiving said model portfolio and said hedging portfolio and combining said cash flows of said model portfolio and said hedging portfolio; and

a payout manager, said payout manager providing a payout based on said combined cash flows.

40. The system of claim 39, wherein said at least one transaction is an actual transaction.

41. The system of claim 39, wherein said at least one transaction is a proxy transaction

42. The system of claim 39, wherein a benchmark is received from said entity, said benchmark representing cash flows and wherein said payout is based on a difference between said combined cash flows and said benchmark cash flows.

43. The system of claim 42, wherein said payout is a payment to said entity if said combined cash flows is less than said benchmark cash flows and said payout is a payment from said entity if said combined cash flows is greater than said benchmark cash flows.

44. The system of claim 43, wherein said payment is a percentage of said difference between said combined cash flows and said benchmark cash flows.

45. The system of claim 43, wherein said payment is provided if said difference between said combined cash flows and said benchmark cash flows is within a band.

46. The system of claim 43, wherein said payment is provided if said difference between said combined cash flows and said benchmark cash flows is outside a band.

47. The system of claim 39, wherein said model portfolio is periodically updated.

48. The system of claim 39, wherein said hedging portfolio is periodically updated.

49. The system of claim 24, wherein said cash flows of said model and said hedge are combined daily.

50. The system of claim 39, further comprising a cash flow manager for exchanging said combined cash flows between said entity and said institution.

51. The system of claim 50, wherein said positive combined cash flows is paid to said entity and said negative combined cash flows is received from said entity.

52. The system of claim 50, wherein said institution retains any loss of cash flows resulting from a default.

53. The system of claim 50, said institution retains at least a portion of any pooling profits.

54. The method of claim 39, wherein said commodity is electricity.

55. The method of claim 39, wherein said commodity is selected from the group including natural gas, copper, zinc, interest rates, oil products, bandwidth and foreign exchange.